

Message Text

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ACTION XMB-07

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FM AMEMBASSY KATHMANDU

TO SECSTATE WASHDC 7146

C O N F I D E N T I A L KATHMANDU 5291

E.O. 11652: GDS

TAGS: ETRD, NP

SUBJECT: EX-IM BANK CONSIDERATION OF ROYAL HOTEL PROJECT

1. ON DEC. 18, DR. JOGENDRA JHA (FINANCIAL ADVISOR TO HRH PRINCE BASUNDHARA AND ONE OF MAJOR PROMOTERS OF HOTEL ROYAL PROJECT) AND DASH KALAL (INDIAN BUSINESSMAN RESIDING IN NEW YORK) CALLED ON AMB. CARGO TO EXPRESS THEIR CONCERN OVER REPORT THEY HAD RECEIVED FROM SOURCES IN US THAT EX-IM BANK WAS RECONSIDERING FINANCING OF ROYAL HOTEL PROJECT. DR. JHA SAID CONCERN OF EX-IM BANK WAS RELATED TO ENERGY CRISIS AND EFFECT IT COULD HAVE ON TOURISM TO NEPAL. JHA WONDERED IF WE WERE AWARE OF EX-IM BANK PROBLEM, AND ASKED WHAT OUR REACTION WOULD BE TO CANCELLATION HOTEL ROYAL PROJECT.

2. AMBASSADOR REVIEWED ECONOMIC SITUATION IN NEPAL AS WE SAW IT AND ESSENTIAL ROLE TOURIST INDUSTRY WOULD PALY IN NEPAL'S FURTHER DEVELOPMENT. PRINCIPAL CONSTRAINT TO GROWTH IN TOURISM AT THIS POINT WAS SHORTAGE OF SUITABLE HOTEL ACCOMMODATIONS, WITH MANY POTENTIAL TOURISTS BYPASSING NEPAL SINCE THEY COULD NOT OBTAIN HOTEL ROOMS. GIVEN SERIOUS SHORTAGE OF HOTEL ACCOMMODATIONS AMBASSADOR SAID THAT WE HAD WELCOMED NEWS THAT INTERCONTINENTAL HOTEL CORP HAD DECIDED TO GO AHEAD WITH CONSTRUCTION HOTXFXROYAL, AND THAT EX-IM BANK HAD EXPRESSED WILLINGNESS TO PBWXTICIPATE IN
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FINANCING OF PROJECT. WITH REGARD TO ENERGY CRISIS, WE

SAID THAT WE DID NOT BELIEVE THAT THIS WOULD HAVE ANY LONG-
LASTING EFFECT ON NEPAL, AS PRESSURE CAPACITY OF AIRLINES
SERVING NEPAL EXCEEDED AVAILABILITY OF SUITABLE ACCOMMODATIONS,
AND AS WE EXPECTED SOME PROVISIONS WOULD BE MADE DURING NEXT
THREE YEARS--THE MINIMUM PERIOD REQUIRED FOR CONSTRUCTION OF MAJOR
HOTEL--WHICH WOULD MITIGATE EFFECTS OF ENERGY CRISIS ON
TOURISM. MOREOVER, SHORTAGE OF HOTELS PROVIDING TYPE OF
ACCOMMODATIONS TO WHICH MOST INTERNATIONAL TOURISTS ARE
ACCUSTOMED IS SUCH A GLARING PROBLEM IN KATHMANDU THAT EVEN
WITH SOME CUTBACKS IN FLIGHTS WE THOUGHT THERE WOULD STILL
BE MORE THAN ENOUGH DEMAND TO JUSTIFY CONSTRUCTION OF
ANOTHER LUXURY CATEGORY HOTEL.

3. JHA AND KALAL SAID THEY SHARED OUR IMPRESSIONS WITH
REGARD TO TOURISM POTENTIAL IN NEPAL AND NEED FOR ANOTHER
LUXURY TYPE HOTEL IN ADDITION TO SOALTEE AND ANNAPURNA.
THEY INDICATED THEY WOULD BE IN TOUCH WITH EX-IM BANK
OFFICIALS IN WASHINGTON TO DISCUSS BANK'S CONCERNS.

4. COMMENT: ANY DECISION RESULTING IN DELAY OF HOTEL
ROYAL PROJECT WOULD BE GREAT DISAPPOINTMENT TO NEPAL, WHICH
IS MAKING CONCERTED EFFORT TO DEVELOP TOURIST INDUSTRY,
THE ECONOMIC SECTOR WITH NEPAL'S GREATEST GROWTH POTENTIAL.
GIVEN LAND-POPULATION PRESSURES INHIBITING GROWTH OF
AGRICULTURE, AND LIMITED MARKET BASE MITIGATING AGAINST
GROWTH IN INDUSTRIAL SECTOR, NEPAL HAS LOOKED
TO TOURISM TO PROVIDE FOREIGN EXCHANGE EARNINGS AND TO
PROVIDE EMPLOYMENT OPPORTUNITIES AND ECONOMIC STIMULATION
THROUGHOUT KINGDOM. GOVERNMENT HAS ADOPTED TEN YEAR
MASTER PLAN FOR TOURISM AND HAS BEGUN TO IMPLEMENT
PLANS'S RECOMMENDATIONS, INCLUDING DEVELOPMENT OF TOURIST
FACILITIES OUTSIDE KATHMANDU VALLEY. (TWO NEW HOTELS HAVE
RECENTLY OPENED IN POKHARA). MOREOVER, COMPLETION OF
WORK WITHIN NEXT SEVERAL MONTHS ON NEPAL'S FIRST CEMENT
PLANT SHOULD FACILITATE CONSTRUCTION ACTIVITIES, WHICH IN
PAST HAVE BEEN DELAYED BY CEMENT SHORTAGES. FIGURES OBTAINED
FROM DEPARTMENT OF TOURISM SHOW NEARLY FORTY PERCENT INCREASE
IN NUMBER OF TOURISTS VISITING KATHMANDU DURING FIRST
NINE MONTHS OF 1973 AS COMPARED TO CORRESPONDING PERIOD
LAST YEAR. MANAGEMENT OF SOALTEE HOTEL HAS
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TOLD EMBASSY THAT SOALTEE ALREADY OVER 80 PERCENT BOOKED
FOR NEXT TOURIST SEASON BEGINNING SEPTEMBER 1974.

5. RECOMMENDATION: WHILE WE UNDERSTAND PRESENT CONCERN
OVER POSSIBLE ATTENDANT EFFECTS OF ENERGY CRISIS, WE HOPE
THAT FACTORS WHICH WE HAVE MENTIONED ABOVE CAN BE TAKEN
INTO CONSIDERATION BEFORE ANY DEFINITIVE DECISION TAKEN
BY EX-IM BANK TO WITHDRAW FROM HOTEL ROYAL PROJECT. WE

ARE CONVINCED THAT FUTURE LEVELS OF TOURISM TO NEPAL WILL
BE SUFFICIENT, PARTICULARLY WHEN MEASURED AGAINST PRESENT
DEARTH OF FACILITIES, TO JUSTIFY CONSTRUCTION OF ADDITIONAL
LUXURY HOTEL. DECISION BY EX-IM BANK NOT TO APPROVE HOTEL ROAYL
LOAN WOULD BE TAKEN AS IMPLYING SERIOUS DOUBTS ABOUT POTENTIAL
OF TOURIST SECTOR, WHICH
GON VIEWS AS HIGHLY PROMISING. SINCE EX-IM BANK IS MAJOR AND
HIGHLY RESPECTED FINANCIAL INSTITUTION, SNOWBALLING FEARS
ABOUT FUTURE OF TOURISM IN
NEPAL ON PART OF PROSPECTIVE INVESTORS COULD BE EXPECTED,
WITH GENERAL DISCOURAGING EFFECT ON MAJOR HOTEL PROJECTS AND
OTHER TOURIST RELATED DEVELOPMENTS.
CARGO

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